VIETNAM RETAIL SECTOR BRIEFING 2016

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Market Overview

Vietnam had a population of 91.7[1] million in 2015, 34.8%[2] of whom are in the young working age of 20-39 which is equivalent to 32.5 million[3] people. GDP growth reached 6.7%[4] last year in the context of global economic slowdown, while foreign enterprises invested a total amount of USD 22.757 billion[5] into the country, recording a year-on-year increase of 12.5 percent[6].

In 2015, 33.6%[7] of the population lived in urban areas and this figure was forecasted to keep rising in the years to come. The urbanised population has increased the demand for modern shopping experiences, attracting many international retailers and also boosting the rise of new domestic retailers. Vietnam retail market was estimated to reach a total value of USD 108 billion[8] last year, 10.6%[9] higher than the previous year, according to Vietnam General Statistics Office (GSO). The activation of the ASEAN Economic Area, The Vietnam – EU Free Trade Agreement, as well as the launch of Trans-Pacific Partnership agreement could encourage a more aggressive competition among retailers in general not to mention foreign or domestic.

Vietnam Consumer Confidence Index (CCI) in Q2 2016 was 107[10]. According to Ministry of Industry and Trade of Vietnam, modern retail formats accounted for some 25%[11] of Vietnam's retail market in 2015, with the country having 724[12] supermarkets, 132[13] shopping centres and a very large number of convenience stores.

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Mergers & Acquisitions (M&A)

2015 was considered as the year of M&A and the volume of M&A transactions is continuing in 2016. It is worth to note that it is not only international players who were active in M&A, but the domestic sector, which used to be more modest, has been now contributing a considerable part to the number of M&A transactions taking place.

For instance, AEON from Japan acquired 30%[14] and 49%[15] of local Fivimart and Citimart, locally established chains popular with the local market; Kinh Đô's confectionary business 80%[16] of which was acquired by Mondelez International with the balance of 20%[17] being acquired more recently. Vingroup, one of Vietnam's leading conglomerates, acquired Ocean Retail Group, Maximark and Vinatexmart are establishing their own convenience store and supermarket chain named VinMart[18] . Significantly some of Thailand's major groups are starting to show their hand in Vietnam with TCC Group completing the purchase of Metro Cash & Carry Vietnam[19] and Central Group acquired Big C Vietnam in 2016[20] .

E-Commerce

As household incomes have increased with the resultant growth in the middle class as has development of social media and the Internet. This development has increased the demand for modern methods of shopping in Vietnam. The market has recently seen fluctuation in several e-commerce foreign-origin websites such as Lazada, Zalora as well as a rise of domestic ones such as Adayroi.com, Thegioididong.com, Tiki.com and Sendo.com etc.

Young citizens especially those in the urban areas have recently been shaping their online shopping habits to include fashion, electronic goods and also books and even food items.

Retail Store Chains

Vietnam has become an increasingly popular location for international retail enterprises. Some domestic brands have struggled hard to adapt to the changing market themselves and so retain their market share. Experiencing these new shopping methods is now establishing itself as a commonplace routine amongst the Vietnamese middle-class, especially for those in the urban areas.

The number of convenience stores has been dramatically boosted to a record 850 outlets[21] in 2015, a significant growth rate of 40%[22] , which makes it the fastest growing category within the grocery market.

Popular retail brands in Vietnam include: Vinmart+, CircleK, Shop&Go, FamilyMart (convenience stores); Vinmart, BigC, Co.opMart, Fivimart, Citimart, Simply Mart (supermarkets) and Vincom, Aeon, Lotte, Parkson, Takashimaya (shopping centres).

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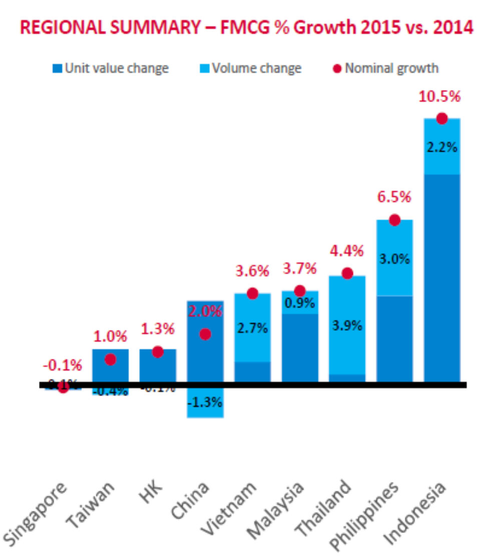
With increasing incomes, rapid urbanisation together with strong economic growth and a young population, Vietnam is one of the fastest growing retail markets in Asia. 2016 has seen a significant emergence in the retail sector highlighted by events such as high-value M&A and serial openings of convenience store chains; while the value of FDI remains robust.



***Source**: Nielsen, Vietnam Macro Economy Overview 2015*

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Strengths

- A very open retail market and unrestricted access for foreign retailers.
- One of the fastest growing retail sectors in Asia. Vietnam ranked second only after China with retail sales volume growth recorded at 8.4% in 2015 and a forecast of 7.8% for 2016. [23]
- Large youthful population offers demographic dividend for retailers.
- Western-style retail in large cities is already well established.

Opportunities

- Rising household incomes and a growing middle class will boost disposable income levels, increasing opportunities for non-MGR retailers.
- Strong consumer bias towards foreign retail brands and products.
- Rising consumer interest in western format shopping and entertainment complexes.
- The proposed Trans Pacific Partnership could further encourage competition between foreign and domestic retailers, as could the realization of the EU-Vietnam Free Trade Agreement as well as the ASEAN Economic Area.
- Retailers already in the market will benefit from first-mover advantage as mergers and acquisitions become more common.
- Improvements to infrastructure should make distribution easier for retailers.

Weaknesses

- Price conscious consumer base with strong saving inclinations.
- The high percentage of a low income population reduces the potential for sale of luxury and non essential items
- Most Vietnamese people live in rural areas, which are harder for retailers to access as the infrastructure is poorer. Those people living in the rural areas also tend to have lower disposable income.
- Comparatively limited urban population reduces target market for retailers.
- Limited existing retail infrastructure and high rental rates in key urban hubs.
- Historical cultural preference for small, family run stores and traditional formats.

Threats

- Continued predominance of a low wage manufacturing workforce in the country restricts their purchasing power to essential items.
- Economic Need Tests, as a procedure barrier, started to apply for the second store that any FDI retailer would wish to open.
- Increasing price consciousness could result in a decline in the demand for costlier foreign retail goods.
- Over the longer term, the retail sector in major cities will become saturated and there are few in-country alternatives that could support modern retail development.

***Source**:, BMI Research, Vietnam Retail Report Q2 2016*

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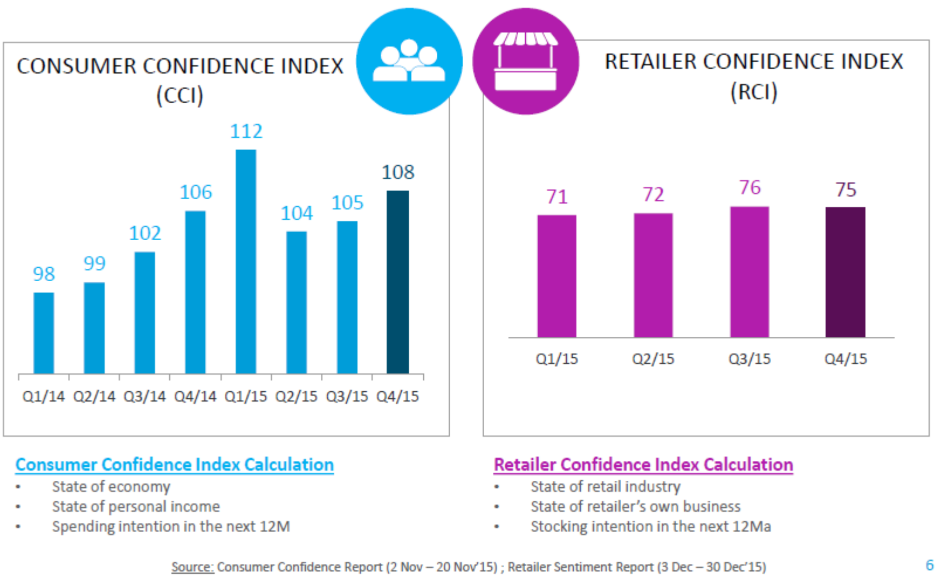
Getting into the market

- Accessing Vietnam's market through authorised distributors/agents is one of the fastest and most convenient means.
- Strong partnerships with local companies is also recommended as an important way to gain access and understanding of the market, as well as providing access to established networks and customer bases.
- Potential forms of cooperation include joint venture, franchising, acquisition, direct investment, distribution partnership.



Source: *Nielsen, Vietnam Macro Economy Overview 2015*

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Major Events

The 4th Vietnam International Maternity Baby & Kid Fair 2016
Date: 3 – 5 November 2016
Address: Saigon Exhibition and Convention Centre SECC, 799 Nguyen Van Linh Street, District 7, Ho Chi Minh City, Vietnam
Website: www.vietbabyfair.com.vn

The 14th Vietnam International Trade Fair in Ho Chi Minh city 2016
Date: 30 November – 3 December 2016
Address: Saigon Exhibition and Convention Centre SECC, 799 Nguyen Van Linh Street, District 7, Ho Chi Minh City, Vietnam
Website: www.hcm.vietnamexpo.com.vn/en

Vietnam International Fashion Fair 2016
Date: 22 – 26 December 2016
Address: Hanoi International Exhibition Centre (ICE), 91 Tran Hung Dao Street, Hoan Kiem District, Ha Noi, Vietnam

Lifestyle Vietnam 2017
Date: 18 – 21 April 2017
Address: Saigon Exhibition and Convention Centre SECC, 799 Nguyen Van Linh Street, District 7, Ho Chi Minh City, Vietnam
Website: www.lifestyle-vietnam.com

The 27th Vietnam International Trade Fair – Vietnam Expo 2017
Date: 19 - 22 April 2017
Address: Hanoi International Exhibition Centre (ICE), 91 Tran Hung Dao Str., Hoan Kiem Dist., Ha Noi, Vietnam
Website:www.vietnamexpo.com.vn/en

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Source of Information

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